EXHIBIT N

Final Dividend Recommendations
U.S. Ordinary Life - 1990 Scales

Overview

For U.S. Ordinary business, we are recommending no change in the aggregate level of inforce dividends. Dividends payable under the 1990 Dividend Scale will thus be approximately $1.2 billion.

Although dividends payable will remain level in aggregate, we are recommending that certain of the dividend factors be adjusted to better reflect recent shifts in the pattern of earnings. In particular, interest credits and expense charges will be increased. In addition, several technical modifications have been made to the dividend formulas for some blocks of business. The impact of these changes on dividends is quantified below.

Table 1 - Change in Dividend Components

	No Scale Change	Proposed Change	Impact
Premium	1195	1195	0
- Expense Charges	257	287	- 30
+ Interest Credits	1510	1553	+ 43
- Mortality Charges	231	236	- 5
- Tax Charges	37	42	- 5
- Planned Profits	0	10	0
+ Interest on Free Surp	10	7	- 3
+ Miscellaneous	- 4	- 4	0
- Fund Increase	1010	1010	0
= Dividend	1177	1177	0

These changes will result in increases in dividends for some blocks of business and decreases for others. The breakdown of dividend changes by rate block and by series is shown in Exhibit A.

New business will be repriced for issues beginning in January 1990 and therefore this recommendation does not affect illustrative scales.

Impact on Earnings

Although dividends will remain level, both GAAP and Statutory earnings will be affected slightly by the shift in dividends between pre-1960 (May Scale) and 1960 and later business (January Scale). The impact in 1989 will be an increase of ________ on a statutory basis and $______ on a GAAP basis. In

1990 the impacts will be $______ on a statutory basis and ______ on a GAAP basis.

The sources of earnings will be somewhat affected by the modifications to the dividend scale. Exhibit B shows a projection of 1990 earnings by source with and without a dividend scale change. Additional detail on the reasons for the changes is included in the section describing experience elements.

The shifts in the dividend scales to more closely reflect sources of earnings should help improve long term profitability. Graph 1 shows projected earnings after dividends with no change and the proposed change in dividend scale.

Experience Elements

Mortality

New mortality experience was used in the calculation of dividends. A comparison of the 1988 Dividend Mortality Tables to the 1990 Dividend Mortality Tables is shown in Exhibit C. Separate Female Mortality Tables were used rather than an age setback, causing mortality charges to generally increase for males and decrease for females. Male mortality experience has worsened especially between the ages of 20 and 40, and we attribute some of this deterioration to AIDS. The impact of the new mortality on dividends is a decrease of about $5 million.

However, because the increase in mortality charges would have caused certain dividends to be lower in 1990 than they were in 1989, not all of the increases were implemented. Overall, mortality charges will remain about the same as they were in 1989.

No explicit funding of a reserve for AIDS claims is provided for in the 1990 dividend scale. We will continue to monitor the level of AIDS claims and the impact they will have on future dividend scales.

Expenses

As shown in Exhibit B, expense revenues in 1990 are projected to be $_______ million less than actual expenses if no change is made to dividends. In order to reduce this deficit, expense revenues have been increased by $30 million in the 1990 dividend scales. This increase was accomplished by raising the per policy and percent of premium expense factors in the dividend formulas. Exhibit D shows how these additional charges are distributed among the different rate blocks and series.

The per policy expense was increased by $2.00 for base policies and $.56 for riders. The new factors are $17.15 and $_______ for base policies and riders, respectively. The percent of premium expense increased by .0075 from 5.1% to 5.85%. These expense charges are felt to be reasonable in comparison to the charges levied by other financial institutions, and are still lower than the charges in the 1986-87 dividend scales.

Investment Income

Investment income has been increasing primarily due to the realization of capital gains on real estate and the improved return on real estate joint ventures. Since the distributable interest rate on 1981 and prior business has historically been restrained by the large investment in deferred income assets, equity considerations suggest that the gains from these assets be distributed to these policyholders. Thus, the distributable interest rate on nonloaned assets of 1981 and prior business will increase by 20 basis points, while the distributable interest rate on 1982 and later business will remain the same. In total, interest credits will increase by $40 million.

Shown below is a comparison of the credited rates for the 1989 and 1990 scales.

Loan Rate	1981 & Prior 1989 Scale	1981 & Prior 1990 Scale	1982 & Later 1989 Scale	1982 & Later 1990 Scale
5%	8.[illegible]5%	8.65%		
6%	8.70%	8.90%		
8%	9.00%	9.20%	9.65%	9.65%
Adj.	9.[illegible]5%	9.35%	10.00%	10.00%

The distributable interest rates were also modified to reflect recent policy loan experience. Policy loans for 5% and 6% loan rate policies have been decreasing as a percent of total cash values.

Interest on free surplus continues to be gradually eliminated from the dividend formulas for newer business. On older blocks this credit has been eliminated.

Taxes

In the 1988 Dividend Scale, the formulas used to calculate taxes for most of the inforce business were revised to reflect the surplus and gain tax provisions of the current tax law. These formulas have now also been applied to the pre-60 business, the 1982-86 rate block, and to certain term policies which previously used an experience premium method of determining dividends.

On certain plans issued between 1982 and 1986 the revision of these tax charges would have caused dividends to decrease. As explained in the section on pegging, P.I. Marketing felt it was crucial not to lower dividends for these plans. Therefore, $11 million of tax charges cannot be collected in 1990. Since actual taxes paid in recent years have been small or negative, the loss of these tax charges should not cause financial problems. For all other plans, tax charges are decreasing by $12 million, of which $9 million is on pre-60 business and is due to the change in tax calculation.

Tax rates for all business were changed to 34% from 37% to reflect the current marginal tax rate. The impact of this change on dividends is minimal.

Several problems still exist with respect to taxes. Terminal dividends are tax inefficient in that they are not guaranteed and therefore are not considered a liability. The accumulation of assets to pay terminal dividends is subject to both gain and surplus taxes.

We plan to compare tax charges to the actual taxes payable by Personal Insurance to see if the tax charges are adequate. This analysis is similar to the studies done on mortality and other elements of experience. Additional work will also be done in 1989 and 1990 to examine the impact that the Alternative Minimum Tax has on taxes incurred by Personal Insurance. The formulas used to calculate taxes in the current dividend scale ignore the Alternative Minimum Tax because this tax is expected to affect only the timing of taxes payable and not the long term amount payable. However, since recent projections by the Tax Department indicate that Metropolitan may be subject to the Alternative Minimum Tax until 1998, the timing differences could be significant. Changes to the Alternative Minimum Tax that are due to go into effect in 1990 will also make this tax more important.

We will also keep abreast of the impact of any changes to the tax law enacted by Congress. Congress is expected to eliminate the surplus tax, but its replacement is uncertain at this time. It is likely, however, that the tax calculation used for dividend purposes will have to be modified next year.

Persistency

No changes were made to the way withdrawals are treated for dividend purposes. That is, for all rate blocks prior to 1987, the dividends do not contain a charge (or credit) for the excess of expected cash value payouts over reserves released in the first few durations this results in a charge to policyholders. The reason withdrawals were not included is that any gain that is received upon surrender offsets the loss of future revenues and should not be credited to the

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policyholders. In essence, this is lapse supported pricing. For 1987 and later policies, the dividend formulas do contain a withdrawal element which represents the excess of the cash value over reserves released. In the first few durations this results in a charge to policyholders. We will re-examine the methodology used for this block of business to better reflect the impact of withdrawals.

Other Changes

Several other technical changes were made. Many of these were mentioned above but will be more fully explained below.

Term Plans and Riders

Dividends for most dividend paying term plans and riders were calculated using the experience premium method. Under this method the dividend is equal to the difference between the actual premium and the premium calculated using current experience factors. The problem with this method is that the fund targets are not fixed. Dividends for these products are now being calculated using a fund mechanism similar to that used for permanent products. The change in methodology caused both increases and decreases in dividends payable. The net change amounts to $______.

The methodology used for dividend paying attained age term plans was similarly revised.

More work needs to be done on the non-dividend paying term plans (One Year Term with Premium Adjustment). P.I. Marketing is planning to reprice this product early in 1990. We will coordinate our efforts with theirs to determine a consistent mechanism for pricing and repricing this business. Funds also need to be established for these plans to enable GAAP reporting to be done.

Pre-60 Business

The development of modules to calculate dividends and other policy values for pre-60 business is near completion. This work will provide us with more flexibility to change dividends and dividend methodology for this block of business. For the 1990 dividend scale, Tax charges were added to the dividend calculations. An adjustment was also made to the funds to reflect the prepayment of part of the terminal dividend in 1988.

Pegging

In order to prevent decreases in dividends on recently issued business (1982 and later), the 1989 dividend scale was continued for certain plans. P.I. Marketing felt it was essential that the APP year remain the same for business sold

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on this basis since much of this business is approaching the APP year originally illustrated. It was felt that any decreases in dividends this time would be detrimental to our efforts to expand the field force and increase sales, thereby worsening the long term financial prospects of Personal Insurance. The cost of pegging this block of business is $16 million. ~~Dividends under the 1990 scale would have declined because of increased expense and tax charges.~~

<u>New Business Pricing</u>

Expense revenues were increased in January 1989 for new issues of Whole Life and Life at 95. This price increase was implemented by keeping the same level of illustrative dividends and increasing premiums. Additional changes to these products will be made in January 1990 in response to TAMRA. A new Whole Life plan is also going to be introduced for face amounts of $250,000 and above to improve our competitiveness in the upper income market. These products have been priced on a consistent basis with other products, and reflect certain cost efficiencies of larger policies.

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For some plans issued prior to 1982, dividends were pegged at the level paid in 1988. This adjustment was accomplished by modifying the mortality charges, as explained above in the section on mortality.

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